

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

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**FISCAL IMPACT STATEMENT**

**LS 6509**

**BILL NUMBER:** HB 1142

**NOTE PREPARED:** Jan 27, 2005

**BILL AMENDED:** Jan 25, 2005

**SUBJECT:** Life Insurance and Medicaid.

**FIRST AUTHOR:** Rep. Brown T

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** As Passed House

**FUNDS AFFECTED:** X GENERAL  
DEDICATED  
X FEDERAL

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill allows the state to use federal or state Medicaid funds to pay life insurance premiums and other costs for a Medicaid recipient or applicant who has assigned the life insurance policy to the state or made the state a beneficiary of the life insurance policy. The bill provides that the value of a life insurance policy that is assigned to the state or makes the state a beneficiary is disregarded in determining Medicaid eligibility.

**Effective Date:** July 1, 2005.

**Explanation of State Expenditures:** (Revised) According to the Office of Medicaid Policy and Planning (OMPP), there is currently no authority for states to pay life insurance premiums under the Medicaid program, so there would be no federal financial participation for this type of expenditure. Since this is a "may" provision which likely requires staff resources to implement, presumably the state would only choose to do this with state-only dollars in the specific instances when it was in the state's interest to do so. Consequently, there should be no net fiscal cost associated with this provision. There could potentially be additional recoupments of Medicaid expenditures.

As for the second provision of the bill, according to OMPP, Medicaid recipients currently can exempt the cash value of a whole life insurance policy whose face value is \$10,000 or less. Otherwise, the cash value is considered a countable resource, and the individual would have to cash the policy out and spend the proceeds in order to gain eligibility. In addition, the state currently exempts from consideration as a resource any insurance policy that is assigned to anyone, so this provision would have no impact in that instance. If the state is assigned the policy, the state would have ownership of the death benefit, as well as any cash value that might

exist.

On the other hand, if the state is irrevocably named the beneficiary of a policy with a cash value, the Medicaid recipient would presumably still have access to the cash value of the policy. However, if the policy is ever surrendered for the cash value (after the value of the policy had been exempted from consideration as a resource), then according to current Medicaid statute, the individual must report the change in cash resources to the Office and the cash would be considered as a resource in the eligibility determination. The provision could expand eligibility for the program to some extent and require the use of staff resources to implement the provision and track current and former Medicaid recipients for the purpose of collecting on the life insurance policies. The Medicaid Program is restricted by the bill to recovering only the value of the policy at the time of the irrevocable assignment. The estate of the recipient would be entitled to any difference in the value of the policy at the time the proceeds of the policy are distributed, and this amount would not be recoverable by the program.

**Explanation of State Revenues:** See *Explanation of State Expenditures*, above, regarding federal financial participation in the Medicaid program.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Office of Medicaid Policy and Planning.

**Local Agencies Affected:**

**Information Sources:** Mary Ann Hack, Office of Medicaid Policy and Planning, (317) 232-1034.

**Fiscal Analyst:** Alan Gossard, 317-233-3546